



**DEPARTMENT OF
FINANCE**
OFFICE OF THE DIRECTOR

ARNOLD SCHWARZENEGGER, GOVERNOR

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October 15, 2009

Honorable Denise Moreno Ducheny, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Noreen Evans, Chair
Assembly Budget Committee

Honorable Christine Kehoe, Chair
Senate Appropriations Committee

Honorable Kevin de Leon, Chair
Assembly Appropriations Committee

Section 28.00—Allocation Methodology for Recently-Received State Fiscal Stabilization Fund Resources

Pursuant to the provisions of Section 28.00, Budget Act of 2009, the following report is respectfully submitted.

The Department of Finance (Finance) has received notification from the United States Department of Education (ED) of the state's receipt of \$1.1 billion of additional Phase I State Fiscal Stabilization Fund (SFSF) funds. ED guidance allowed the state to update 2008-09 data and amend the state's initial SFSF application. As a result, the state now possesses 90 percent of its SFSF allocation. Of the \$1.1 billion, \$355 million is to be expended to restore 2008-09 budget reductions to K-12 education as directed in the federal SFSF guidance (the balance of funds are committed to community colleges and higher education). Because there are several avenues by which the state can allocate the funds to K-12 education, the purpose of this letter is explain the approach that the Administration intends to take to restore K-12 budget reductions.

A budgetary solution included in the revised Budget Act of 2009 was the reversion of \$1.6 billion in 2008-09 Proposition 98 General Fund K-12 categorical program funding. Fifty-one programs were affected by the reversion. This funding was restored to these categorical programs in 2009-10 by reducing the revenue limits of all school districts. We respectfully request the State Department of Education (SDE) to allocate the \$355 million SFSF monies to the categorical program or programs with the largest 2008-09 reductions to ensure that all school districts receive a portion of these funds. This approach will distribute SFSF funds based on categorical program reductions for 2008-09, which is consistent with the intent and guidance of the SFSF, and make it easier for the SDE to administratively allocate funding to each local educational agency (LEA) for a limited number of programs rather than all fifty-one programs. This allocation will also reduce the amount necessary to restore these programs by \$355 million. We note that the revised Budget Act of 2009 already includes an appropriation that authorizes the SDE to allocate the \$355 million to LEAs.

As a result of this, the Administration is working with the Legislature to delete the requirement that the SDE reduce the revenue limit funding for LEAs with Quality Education Investment Act (QEIA) schools, as directed by Chapter 2, Statutes of 2009, of the Fourth Extraordinary Session. Consistent with this, we are requesting that county offices of education not require

QEIA school districts to submit revised budgets that reflect the previously anticipated reduction in revenue limit funding.

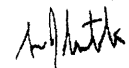
This letter is for notification purposes only. No change to the budget is necessary.

If you have any questions or need additional information regarding this matter, please call Nicolas Schweizer, Assistant Program Budget Manager, at (916) 445-0328.

MICHAEL C. GENEST

Director

By:



ANA J. MATOSANTOS

Chief Deputy Director

cc: Honorable Bob Dutton, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable Jim Nielsen, Vice Chair, Assembly Budget Committee
Honorable Gloria Romero, Chair, Senate Budget and Fiscal Review Subcommittee No. 1
Honorable Wilmer Amina Carter, Chair, Assembly Budget Subcommittee No. 2
Mr. Mac Taylor, Legislative Analyst (3)
Mr. Danny Alvarez, Staff Director, Senate Budget and Fiscal Review Committee
Mr. Bob Franzosa, Staff Director, Senate Appropriations Committee
Mr. Seren Taylor, Staff Director, Senate Republican Fiscal Office
Mr. Craig Cornett, Senate President pro Tempore's Office (2)
Mr. Christian Griffith, Chief Consultant, Assembly Budget Committee
Mr. Geoff Long, Chief Consultant, Assembly Appropriations Committee
Mr. Peter Schaafsma, Staff Director, Assembly Republican Fiscal Committee
Ms. Christine Robertson, Chief of Staff, Assembly Republican Leader's Office
Mr. Christopher W. Woods, Assembly Speaker's Office (2)
Honorable Jack O'Connell, Superintendent of Public Instruction
Mr. Glen Thomas, Secretary of Education
Ms. Cynthia Bryant, Director, Governor's Office of Planning and Research
Ms. Sharon Taylor, Director, Fiscal and Administrative Services Division, Department of Education